

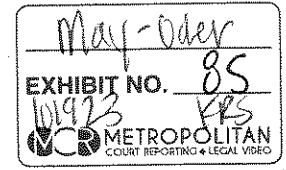
# **EXHIBIT AG**

## **[PUBLIC VERSION]**

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FEDERAL RESERVE BANK *of* KANSAS CITY

October 21, 2022



Caitlin Long  
 Chief Executive Officer  
 Custodia Bank, Inc.  
 2120 Carey Avenue, Suite 300  
 Cheyenne, Wyoming 82001

Via Electronic Mail: [caitlin@custodiabank.com](mailto:caitlin@custodiabank.com)

Dear Ms. Long:

I am writing to update you on the status of Custodia's master account request. On August 15, 2022, the Board of Governors of the Federal Reserve System approved final guidelines (Account Access Guidelines) for Federal Reserve Banks (Reserve Banks) to utilize in evaluating requests for access to Reserve Bank master accounts and services. Therefore, the Federal Reserve Bank of Kansas City (FRBKC) is referencing the principles outlined in this guidance while assessing Custodia Bank Inc.'s (Custodia's) request for a master account.

In applying the Account Access Guidelines, FRBKC has determined that under its current structure, Custodia qualifies as a Tier 3 institution, posing the highest level of risk and subject to the strictest level of review. This is due to the institution not being subject to prudential supervision by a federal banking agency, not being federally insured, and because planned business activities are novel in nature and of inherently higher risk. FRBKC is aware that Custodia may become a Tier 2 institution under the Account Access Guidelines if it obtains membership in the Federal Reserve System.

Our ongoing review of Custodia's master account request also leverages information and material from the September 6, 2022, examination of Custodia as part of the evaluation of Custodia's application for membership in the Federal Reserve System. While the criteria for membership are distinct from the master account request and involve different factors and considerations, several expectations related to risk management practices and Bank Secrecy Act (BSA), Anti-Money Laundering (AML), and Office of Foreign Assets Control (OFAC) regulatory requirements are substantially similar. The scope of the pre-membership examination focused on initial core banking product and services to be offered; however, despite the limited scope, the examination identified a number of key gaps in Custodia's risk management practices, several of which are correlated to expectations within the Account Access Guidelines. Specifically, a lack of development was noted surrounding the risk management framework across all areas of the firm, with significant gaps identified with BSA/AML and OFAC compliance, information technology, audit, and financial areas. These gaps were communicated by FRBKC staff verbally during meetings with Custodia on October 12, 2022, and October 13, 2022, and further through correspondence dated October 21, 2022, providing written feedback from the examination event.

Additionally, a formal resolution plan has not yet been developed. While this Reserve Bank understands the Wyoming Division of Banking does not require a resolution plan until the institution has been in operation for six months, the plan is a critical component of our evaluation. Per the Wyoming Division of Banking's Chapter 20 of SPDI Rules and Regulations, the resolution plan is required to include how Custodia would "protect the interests of the customers of the institution and to protect the financial system from material risks." It is the

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role of FRBKC to ensure the same material risks do not result in loss to the Reserve Bank or negatively impact the payment system. As part of this analysis, FRBKC is evaluating the SPDI resolution process and ways in which FRBKC might mitigate the risks to FRBKC or participants in the payment system resulting from the failure of an SPDI.

In addition to the matters raised above regarding Custodia's planned initial core banking products and services, questions remain regarding Custodia's planned custody, Prime Services<sup>1</sup>, and crypto-asset-related products and services. While these products and services present potential permissibility and broader policy questions, at present they are not yet developed enough to permit comprehensive evaluation by this Reserve Bank. Further evaluation of these planned future products and services will be necessary when they become more fully developed and sufficient information becomes available.

We look forward to Custodia's responses to the feedback concerning the gaps discussed in this letter, the pre-membership examination letter dated today sent by Jeff Imgarten, and more detailed feedback verbally communicated during meetings with Custodia held on October 12, 2022, and October 13, 2022. Custodia's actions in response to the Reserve Bank's feedback and the continuing work on policy implications raised by Custodia's request for a master account will further inform the Reserve Bank's continuing analysis of Custodia's request, which remains under consideration at this time.

Questions related to Custodia's request for a master account with the Federal Reserve Bank of Kansas City may be directed to Vice President Judith Hazen at (816) 881-2789, or me at (816) 881-2893.

Sincerely,

Christi May-Oder  
Assistant Vice President

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<sup>1</sup> At this time, planned "Prime Services" include the facilitation of customer digital asset purchase and sale activities (as agent), facilitation of lending customers' digital assets (as directed trustee), and foreign exchange services.